

**U.S. House of Representatives**

**Agriculture Subcommittee on  
Department Operations, Oversight, Dairy, Nutrition, and Forestry**

**Gil Gutknecht, (R-MN) Chairman**

**Field Hearing**

**May 31, 2006**

**Winona State University**

**Winona, Minnesota**

**Robert Cropp**

**Professor Emeritus**

**University of Wisconsin**

**Madison, Wisconsin**

Mr. Chairman and members of the committee, thank you for inviting me to address the State of the Upper Midwest Dairy Industry. My name is Robert Cropp. I am professor emeritus, Department of Agricultural and Applied Economics, University of Wisconsin, Madison, Wisconsin. For the past 40 years I have taught university classes, conducted research and carried out extension education in dairy marketing and policy and agricultural cooperatives.

Not unlike much of the U.S. dairy industry, the Upper Midwest has and continues to experience rather rapid structural changes at both farm and milk plant levels. Table 1 shows changes in the dairy farm structure over the 10-year period of 1996 – 2005. In 2005, the three states of Iowa, Minnesota and Wisconsin still had 10 to 20 percent of their dairy herds with fewer than 30 milk cows, and a 22 to 37 percent between 30 and 49 cows. About a third of the herds had 50 to 99 cows. Just 10 to 16 percent had 100 to 199 cows and 1 to 5 percent with 200 plus cows. During this 10 year period all size groups, except for the 200 plus cows, experienced rather large percentage declines in farm numbers, with decline greater for the smaller herds. The 200 plus cow herds had substantial increases in numbers (77 percent in Minnesota to 157 percent in Wisconsin). The total number of dairy herds during this period declined more than 45 percent, a little more than a 40 percent decline in the total number of U.S. dairy herds. But, yet with this decline in the number of dairy herds, the average size herd is still only about 80 cows in the Upper Midwest compared to an average of 115 cows nationally.

Table 1: Structure of Upper Midwest Dairy Herds, 1996 as compared to 2005

Herd size (number of cows)	Iowa			Minnesota			Wisconsin		
	1996	2005	% Ch.	1996	2005	% Ch.	1996	2005	% Ch.
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1 to 29	27.1	21.2	-59.2	20.0	10.7	-70.5	18.5	14.3	-56.0
30 to 49	27.1	22.0	-57.7	37.3	32.8	-53.7	35.2	25.5	-58.9
50 to 99	34.4	35.6	-46.1	34.5	41.4	-36.8	35.6	41.8	-33.3
100 to 199	10.0	16.0	-20.0	7.5	10.0	-30.1	9.4	12.1	-26.9
200 plus	1.5	5.2	+85.7	1.5	5.2	+76.5	1.4	6.2	+156.8
Number of herds	4,800	2,500	-47.9	11,000	5,800	-47.3	27,000	15,300	-43.3
Average herd size (cows)	52	78	+50.0	54	78	+44.4	54	81	+50.0

Source: USDA, NASS

Table 2 breaks down the herd size for 2005 into more categories and shows the percentage of milk produced by each category. As shown, Iowa has 1.2 percent of its herds with 500 plus cows, but size group accounts for 21.0 percent of the state's

milk production. For Minnesota this size group represented 1.0 percent of the herds but 14.5 percent of the milk, and for Wisconsin this was 1.3 percent of the herds and 16.0 percent of the production. This compares to the U.S. where 3.9 percent of the herds are 500 plus cows that account for 49.5 percent of the milk. Herds with 200 plus cows in the Upper Midwest account for about 5 percent of the herds, but about a third of the milk. This compared to about 10 percent of the herds having 200 plus cows in the U.S. producing about 65 percent of the milk.

Table 2: Structure of Upper Midwest Dairy Herds and Percent of Milk Production, 2005

Herd size(number of cows)	Iowa		Minnesota		Wisconsin	
	% Herds	% Milk	% Herds	% Milk	% Herds	% Milk
1 to 29	21.2	2.0	10.7	2.5	14.3	2.0
30 to 49	22.0	8.0	32.8	15.0	25.5	11.0
50 to 99	35.6	27.0	41.4	34.0	41.8	34.0
100 to 199	16.0	26.0	10.0	17.0	12.1	19.0
200 to 499	4.0	16.0	4.1	17.0	4.9	18.0
500 plus	1.2	21.0	1.0	14.5	1.3	16.0

Source: USDA, NASS

Table 3 shows what has happened to milk cow numbers in the Upper Midwest as compared to the U.S. The decline in cow numbers is much less than the decline in dairy farm numbers reflecting expansions in the size of the dairy herd. During the 10-year period of 1996-2005, both Iowa and Minnesota experienced a decline in cow numbers of more than 22 percent, compared to a decline of about 15 percent in Wisconsin and only 3.5 percent for the U.S. as a whole.

Table 3: Milk Cow Numbers in the Upper Midwest and the U.S., 1996 and 2005

State	--1,000 head in 1996--	--1,000 head in 2005--	---Percent Change---
Iowa	250	194	-22.4
Minnesota	598	453	-24.2
Wisconsin	1,449	1,236	-14.7
U.S.	9,372	9,041	- 3.5

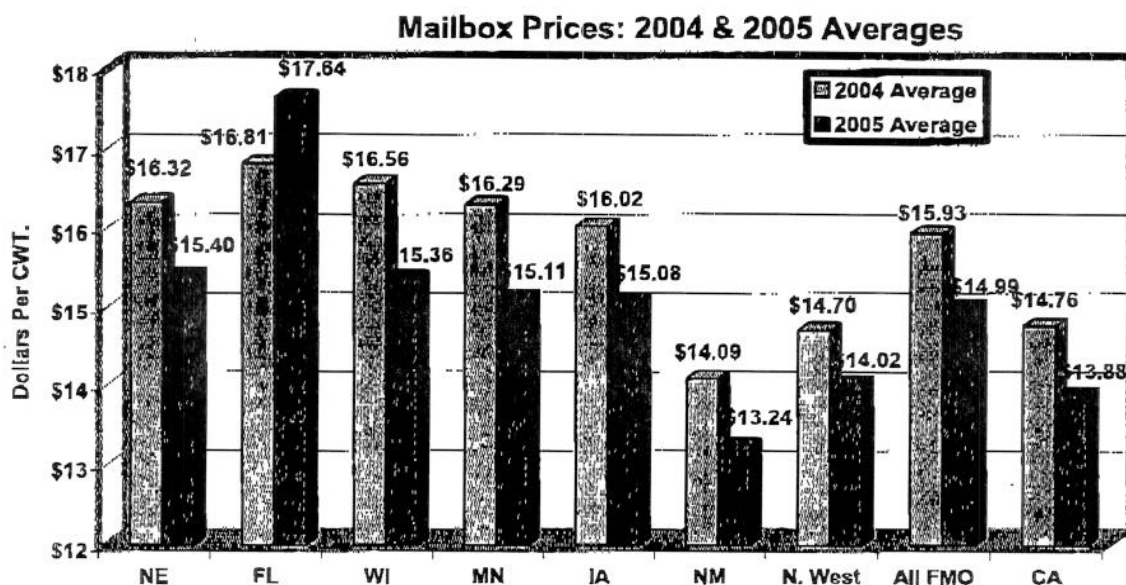
Source: USDA, NASS

Table 4 shows total milk production in the Upper Midwest and the U.S. for 1996 and 2005. During this ten year time period both Iowa and Wisconsin had a small increase in total milk production, 5.1 percent and 2.3 percent respectively. However, Minnesota experienced a 13.2 percent decline in milk production. The nation's milk production increased 14.9 percent during this period. The decline in milk production for Iowa and Wisconsin appears to have ceased somewhat with new dairy farm investments starting to produce a slow increase in milk production.

In fact, Wisconsin started to experience an increase in milk cow numbers during 2005 and ended the year with an increase in milk production of 3.5 percent. Iowa had a 4.4 percent increase in milk production from a few more cows and a strong increase in milk per cow. In Minnesota 3.4 percent more milk per cow more than offset 2.2 percent fewer cows, netting a 1.1 percent increase in milk production. Dairy development initiatives in Iowa appear to be having a positive impact. Wisconsin legislature has been positive for dairy development including funds for dairy expansion planning, investment tax credit, low interest loans for adding cows, funds to support grazing, and a recent siting legislation that will greatly improve the process for dairy farmers wanting to expand their dairy operation. The state of Minnesota is attempting to pass and implement similar legislation to develop their dairy industry.

The lack of a growing milk supply in the Upper Midwest has led to strong competition between dairy cooperatives and other milk processors for milk to fill their processing plants and to meet their customer needs for cheese and other dairy products. Upper Midwest dairy cooperatives and other milk processors pay dairy farmers substantial premiums above regulated federal milk marketing order minimums. Similar premiums are not paid by milk processors to dairy farmers in the growing milk production region of the West. Further, California is not part of the federal milk marketing order systems and its state milk pricing system sets minimum dairy producer prices for milk going into butter, milk powder and cheese below that of federal milk marketing order minimum prices. The result is mailbox milk prices paid by dairy cooperatives and other milk processors to Upper Midwest dairy producers more than a \$1.00 per hundredweight higher than what is paid in California and other western states. While these higher mailbox prices are beneficial to Upper Midwest dairy producers, these higher premiums are not sustainable long run. This difference in milk cost to Upper Midwest cheese plants makes it difficult for them to compete price-wise against California and other Western cheese plants in marketing cheese to a competitive national market. Upper Midwest dairy cooperatives and other milk processors need to generate sufficient net plant margins for capital investment in plant and equipment, if they wish to maintain modern and more efficient processing technology required to be competitive with the new and larger processing plants recently built and being built in the West.

The chart below shows average mailbox prices for selected states for years 2004 and 2005.



Source: USDA, AMS

Competitiveness of the national cheese market and tight plant margins has forced consolidations of cheese and other manufacturing milk plants in the Upper Midwest. Any major new cheese plant has not been constructed in more than 18 years. Table 4 shows the change in the number of Upper Midwest cheese plants during the ten period of 1996 – 2005. The number of cheese plants declined by 18% in Wisconsin, 31% in Minnesota with no change in Iowa. This compares to only 0.5% decline in the number of U.S. cheese plants.

Table 4: Change in the number of Upper Midwest Cheese Plants, 1996 – 2005

State	Number of Cheese Plants in 1996	Number of Cheese Plants in 2005	Percent Change
Iowa	7	7	No change
Minnesota	16	11	- 31.3%
Wisconsin	140	115	- 17.9%
U.S.	412	410	- 0.5%

Source: USDA, NASS

With the Upper Midwest dairy industry characterized by a more than 40 percent of their dairy herds having fewer than 50 cows, it will continue to experience a rather rapid decline in dairy farm numbers. Most of these smaller herds have outdated facilities in need of repair and updating and are operated by older farmers who will be retiring. In most instances, these small dairies are not large enough to support an



adequate family living. Yet, the Upper Midwest will continue to have a relatively large number of small dairy farms that can be profitable and sustainable. These are dairy farms that have adopted low inputs through grazing and/or are producing milk for the growing niche markets such as organic or BsT free milk and dairy products that command a higher price than traditional produced milk and products. Others are supplying milk to smaller cheese plants that are making higher margin specialty cheeses. Specialty cheeses now account for 15 percent of the cheese made in Wisconsin. And still others have successfully entered into on-farm production and sales of beverage milk, cheese and yoghurt. These examples are fine for those who wish to remain small and have the associated lifestyle. But, they will continue to account for a relatively small share of Upper Midwest's total milk production.

But, if the Upper Midwest is to slow or stop the decline in the number of milk cows and total milk production, there needs to be more larger 500 cow, 1,000 cow and even larger cow dairy operations. The Wisconsin's recently implemented siting rules will help make that possible. But also, a number of dairy farms in the 50 to 99 cow group need to modernize and grow their dairy operation to a size that will support two or more families. This is because 40 percent of the Upper Midwest herds are in the 50 to 99 cow size and account for about a third of the total milk production. Without this herd expansion it may not be possible to offset the exiting of smaller herds and to grow, let alone maintain its dairy industry entirely from additional 1,000 plus cow herds.

There are a number of these 50 to 99 cow farms that have already expanded and modernized and now serve as models for others to follow. Many have used the old dairy facility to put in a low cost labor saving milking parlor and built a free stall barn for better cow comfort and reduced labor time to feed and care for the cows. Many of these have expanded their dairy herd to 125, 250 or more cows. Cost data show that these farms can be very competitive with the larger cow operations from a per hundredweight cost of milk production comparison. And maybe even more important, they provide a favorable lifestyle that allows the families to have some free time, take a vacation, to engage in more family activities and the like. Planning grants, investment tax credit, and low interest rate loans to add cows previously mentioned are examples of programs in Wisconsin that are assisting these dairy farmers to expand and modernize.

The Upper Midwest has the land resources, climate, existing infrastructure and market access for a competitive and profitable dairying. But, it needs to recognize that the dairy industry is a national market for milk and dairy products

and is becoming more international. The Upper Midwest dairy farmers, cheese plants and other milk processors need to compete with the best in this national market and yet be profitable. This requires the dairy herd modernization and expansion as mentioned. State programs as described can help foster this needed adjustment. But since milk and dairy product prices are determined by national and international market factors, there is a need for effective federal dairy policy. Dairy farmers often take on substantial debt when they modernize and expand. If upon completion of a modernization project, the dairy experiences a long period of depressed milk prices, they can experience considerable financial stress and even financial failure. Federal dairy policy is needed to provide dairy farmers with a safety net from these low milk prices.

The existing Milk Income Loss Contract Program (MILC) has provided an effective safety net to Upper Midwest dairy farmers. The program is not perfect. The \$16.94 Class I Boston price is well above market clearing levels the majority of the time. Thus, the program is price enhancement rather than price risk protection, at least for those dairy farms that receive MILC payments on their entire milk production. Some argue that the 2.4 million pound annual payment discriminates against larger dairy farms and regions of the U.S. with mainly large herds. Yet, some type of counter-cyclical program can be effective in providing dairy farmers with an appropriate safety net and at a reasonable federal budget exposure level. Some preliminary analysis we have done shows that a target price on manufacturing use milk in the \$10 to \$11 per hundredweight range would not be burdensome to the federal budget and would provide a more effective safety net to dairy farmers than the existing \$9.80 (3.5% butterfat test) federal dairy support price by itself. For one thing, the \$9.80 support price by itself is too low of a safety net to be of much help to dairy farmers and it definitely is not a floor price. During the depressed milk prices of 2000, the Class III price (milk used for cheese) was below support 7 of the 12 months and fell to a low of \$8.57 in November. Then in 2002 the Class III price was below support for 3 of the 12 months and in 2003, for 6 of the 12 months. Currently, the support program works fairly well for the CCC in purchasing nonfat dry milk during surplus milk periods, but it does not work very well for supporting cheese prices and in turn Class III prices for several reasons. There are proposals by USDA, the National Milk Producers Federation and others to make changes in the CCC price support program to make it a better floor price. But, due to how the dairy industry now operates in the manufacture and marketing of cheese, I question if the proposed changes will correct the deficiencies of the CCC purchase price support program. Plus the \$9.80 price

support program does not score well under existing WTO rules<sup>1</sup>. I would encourage Congress in the 2007 Farm Bill debate to give serious consideration to a counter-cyclical support program for dairy.

Thank you for your kind attention. I would be happy to answer any questions.

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<sup>1</sup> WTO rules establish allowable Aggregate Measure of Support (AMS), that is Amber Box trade distorting programs. U.S. is allowed a maximum of \$19.1 billion of Amber Box programs. The dairy price support program is considered to contribute about \$4.5 billion, 25% to the Amber Box. This is determined by taking the difference between the \$9.90 support price (at 3.67% butterfat test) and a world reference price of \$7.25 (a difference of \$2.65) times U.S. milk production.



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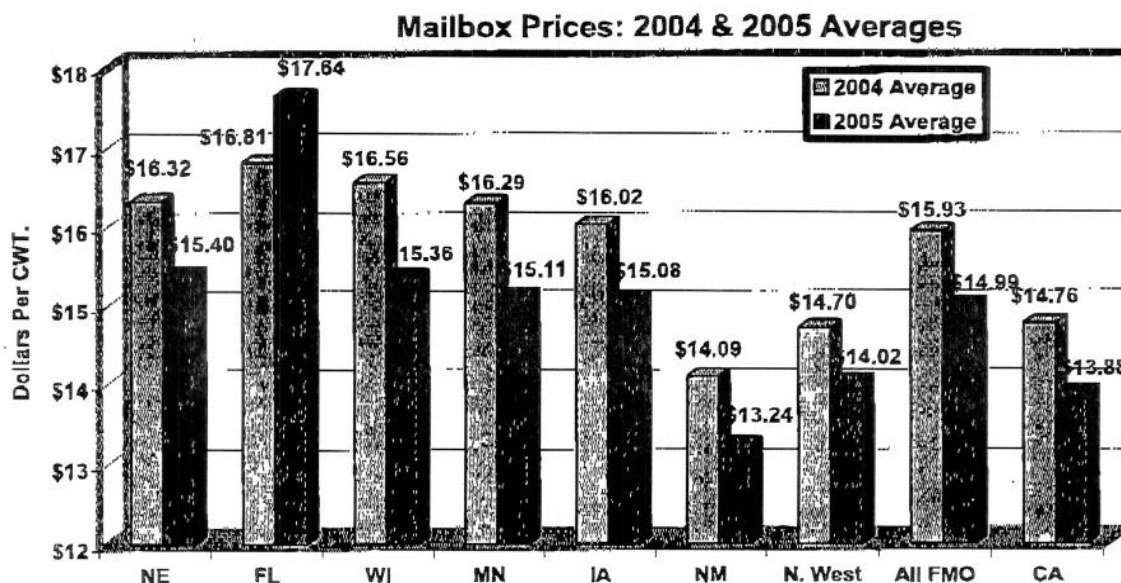
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Table 4 shows total milk production in the Upper Midwest and the U.S. for 1996 and 2005. During this ten year time period both Iowa and Wisconsin had a small increase in total milk production, 5.1 percent and 2.3 percent respectively. However, Minnesota experienced a 13.2 percent decline in milk production. The nation's milk production increased 14.9 percent during this period. The decline in milk production for Iowa and Wisconsin appears to have ceased somewhat with new dairy farm investments starting to produce a slow increase in milk production.

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May, 2006

**Robert A. Cropp**

Robert Cropp is Interim Director of the University of Wisconsin Center for Cooperatives and Professor Emeritus, Department of Agricultural and Applied Economics, University of Wisconsin-Madison. From June 1990 to January 2003 he served as Director of University of Wisconsin Center for Cooperatives and Dairy Marketing and Policy Specialist with University of Wisconsin Extension, both at the University of Wisconsin-Madison. From August 1996 to June 1990, he was professor and dairy marketing and policy specialist, with University of Wisconsin-Platteville where he served as Dean of the College of Agriculture for three years prior to coming to University of Wisconsin-Madison.

He has devoted the past 40 years to working with agricultural cooperatives and on dairy marketing and policy issues. Extension/outreach programs and research were directed at cooperative boards of directors, managers and employees. In the dairy area extension/outreach programs and research targeted dairy farmers, dairy cooperatives, and dairy leaders in regards to milk pricing, risk management and federal dairy policy.

Dr. Cropp received his Ph.D. and MS degrees in agricultural economics, both from the University of Wisconsin-Madison and his B.S. degree in agricultural education from University of Wisconsin-Platteville. Dr. Cropp has received numerous awards for his teaching and extension work and service to agriculture and cooperatives.

**Committee on Agriculture  
U.S. House of Representatives  
Information Required From Non-governmental Witnesses**

House rules require non-governmental witnesses to provide their resume or biographical sketch prior to testifying. If you do not have a resume or biographical sketch available, please complete this form.

1. Name: Robert A. Cropp
2. Business Address: University of Wisconsin  
229 Taylor Hall  
Madison, Wisconsin 53706
3. Business Phone Number: 608-262-9483
4. Organization you represent: University of Wisconsin
5. Please list any occupational, employment, or work-related experience you have which add to your qualification to provide testimony before the Committee:  
40 years as a faculty member of  
University of Wisconsin where I taught,  
conducted research and extension in  
dairy marketing & policy and cooperatives.
6. Please list any special training, education, or professional experience you have which add to your qualifications to provide testimony before the Committee:  
B.S. in Agricultural Education  
M.S. in Agricultural Economics  
Ph.D. in Agricultural Economics
7. If you are appearing on behalf of an organization, please list the capacity in which you are representing that organization, including any offices or elected positions you hold:

**PLEASE ATTACH THIS FORM OR YOUR BIOGRAPHY TO EACH COPY OF TESTIMONY.**



Committee on Agriculture  
U.S. House of Representatives  
Required Witness Disclosure Form

House Rules\* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2004.

Name: Robert A. Cropp  
Address: 949 Johnson Ave, Oregon, WI 53575  
Telephone: 608-262-9483  
Organization you represent (if any): Employed by  
University of Wisconsin

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2004, as well as the source and the amount of each grant or contract. House Rules do **NOT** require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:

Source: Univ. of Missouri Amount: \$10,000

Source: \_\_\_\_\_ Amount: \_\_\_\_\_

2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2004, as well as the source and the amount of each grant or contract:

Source: \_\_\_\_\_ Amount: \_\_\_\_\_

Source: \_\_\_\_\_ Amount: \_\_\_\_\_

Please check here if this form is NOT applicable to you: \_\_\_\_\_

Signature: Robert Cropp

\* Rule XI, clause 2(g)(4) of the U.S. House of Representatives provides: Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness.

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.